ORIGINAL

OPEN MEETING

MEMORANDUM

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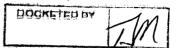
Utilities Division

DATE: June 27, 2012

AZ CORP COMMISSION DOCKET CONTROL 0000137595

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JUN 2 7 2012



RE:

MORENCI WATER & ELECTRIC COMPANY – APPLICATION FOR AN ADJUSTMENT IN ITS PURCHASED POWER AND FUEL ADJUSTMENT

CLAUSE RATE (DOCKET NO. E-01049A-12-0142)

On April 12, 2012, Morenci Water & Electric Company ("Morenci" or "Company") filed a request for an adjustment to its Purchased Power and Fuel Adjustment Clause ("PPFAC" or "adjustor") rate from negative \$0.051 per kWh to negative \$0.03122 per kWh to address the projected under-collected account balance. Morenci indicates that customers are paying a fuel and purchased power rate that is below the actual cost of fuel and purchased power; therefore, Morenci's account balance will exceed the under collected threshold of \$500,000 in the first part of 2013. Morenci projects an account balance of \$497,247 (representing its under-collection of fuel and purchase power by this amount) by the end of 2012, growing to \$1,025,664 by the end of 2013.

Background

Morenci is an Arizona public service corporation certificated by the Commission to provide electric and water service to customers in various portions of Greenlee County, Arizona. As of December, 2011 they have 2,035 residential and 244 commercial customers.

Decision No. 54712 (October 10, 1985) set a base cost of purchased power at \$0.07522 per kWh that is embedded in base rates. A PPFAC mechanism is established to true-up revenue collections with the fluctuating costs of purchased power between rate cases. When the actual cost of purchased power exceeds (or has exceeded) the base cost of purchased power and a utility's under-recovery of costs is projected to persist into coming months, the PPFAC rate is set to a positive number. However, when actual purchased power costs are lower than the base cost of power, as in Morenci's situation, the PPFAC rate is set to a negative number. The PPFAC account balance tracks the differences between actual purchased power costs and those recovered through the combination of base rates and the PPFAC rate.

In Decision No. 68438 (February 2, 2006), the Commission approved the over-collected threshold level of \$200,000 and the under-collected threshold level of \$500,000 for Morenci. The Commission further ordered that the Company file an application to establish a new PPFAC rate either two months prior to the month the account balance was projected by the Company to reach zero, or by December 31, 2006, whichever occurred first.

In Decision No. 68813 (June 29, 2006), the Commission approved an adjustor rate of negative \$0.019 per kWh that replaced the previous adjustor rate of negative \$0.02939 per kWh.

In Decision No. 71468 (January 26, 2010), the Commission approved a temporary PPFAC rate of negative \$0.027 per kWh for a 12-month period starting February 2010 through January 2011. The Commission approved the current PPFAC rate of negative \$0.051 per kWh in Decision No. 72065 (January 6, 2011).

Pending Rate Case

Morenci filed a rate case on July 29, 2011, in Docket No. E-01049A-11-0300. In the rate case Morenci is proposing a change to the current PPFAC mechanism to include a forward and true-up component, i.e., the existing PPFAC will be reviewed and may be modified in this pending rate case.

Account Balance

Over- or under-collections are currently tracked and accumulated in an account with a threshold of \$200,000 for over-collection and \$500,000 for under-collection. The Company's PPFAC account balance has been under-collecting since January 2011 and will exceed the under-collected threshold by January 2013. Morenci states in its application the reason that its account balance will exceed the under-collected threshold is that customers are paying a fuel and purchased power rate that is below the actual cost of fuel and purchased power. Morenci's account balance as of March 2012 is an under-collected amount of \$100,935 and, based on updated forecasts provided to Staff, Morenci estimates the under-collected amount will be \$497,247 by the end of 2012.

Morenci's Proposal

Morenci is proposing to change the PPFAC rate from negative \$0.051 per kWh to negative \$0.03122 per kWh starting on or before September 1, 2012. Based on its current estimate of power costs, Morenci believes its proposal will reduce the under-collected balance to \$181,611 by the end of 2013. Attachment 1 is a worksheet illustrating Morenci's actual demand, current PPFAC rate and the associated account balance based on actual data from January 2011 to March 2012 and forecasted demand from April 2012 through December 2015. The worksheet shows the estimated monthly bank balance from September 2012 through December 2015, assuming the proposed PPFAC rate started in September 2012.

The current and proposed PPFAC adjustor rates are both negative as Morenci's actual costs for purchased power continue to be lower than the base cost of power set in Decision No. 54712. Approximately 98 percent of the Company's electric sales are contract sales to two industrial customers, copper mines. These sales fall outside the PPFAC because the customers are served under a special contract. The PPFAC mechanism is relevant only to the other two percent of Morenci's sales consisting of approximately 2,035 residential and 244 commercial customers. Staff calculated the average monthly use per residential user to be 657 kWh and,

based on the average usage, Staff estimates residential customers will have an average increase of \$12.99 per month. Staff agrees with Morenci's assessment that an increase from \$0.051 to negative \$0.03122 is necessary to prevent a rapid and expanding under-collection by the Company, and that the increase is appropriate and in the public interest.

Notice

Morenci has notified Staff that it has published notice of its proposed adjustor rate in the May 2, 2012 edition of the *Copper Era*, a newspaper of general circulation in Greenlee County.

Recommendations

- 1. Staff recommends that a PPFAC rate of negative \$0.03122 be approved starting September 2012 and remain in effect until further order of the Commission.
- 2. Staff recommends that Morenci notify its customers of the amount of the PPFAC rate and the potential bill impacts at average monthly levels of kWh use within 30 days of the effective date of the Decision in this case, and in a form acceptable to Staff.

Steven M. Olea

Director

Utilities Division

SMO: PML:sms/WVC

Originator: Patrick M. Lowe

(187, 62) (197			Actual Jan-11	Actual Feb-11	Actual Mar-11	Actual Apr-11	Actual May-11	Actual Jun-11	Actual Jul-11	Actual Aug-11	Actual Sep-11	Forecast Oct-11	Forecast Nov-11	Forecast Dec-11	Total
Table See Control See Co	1 5 40	Ending Bank Balance from Previous Month Jurisdictional Sales	(547,396)	(490,963)	(444,225)	(410,986)	(372,077)	(340,869)	(303,670)	(247,678)	(187,763)	(130,078)	(88,994)	(55,531)	(547,396)
Aberia Connect State Processor (Appendix Month) (1) (4) (4) (4) (4) (4) (4) (4) (4) (4) (4	38	Total Sales(incl Spec Cont)	116,208,569	109 306 153	123 909 854	117 197 028	121 336 474	117 943 705	122 026 999	3,418,362	110 241 520	118 433 818	121 223 086	127 008 725	32,557,625
Administration of the Procession No. 5,186,389 4,586,589 4	2	Special Contract Sales (Industrial kWh)	113,457,495	106,801,287	121,568,694	114,775,065	119,347,843	115,466,019	118,744,564	119,773,070	115,465,496	115,464,894	118,876,175	124,530,356	1.404.270.958
Outcome of the control of brothers of brothers of brothers of the control of brothers of	ო	Actual Cost of Purchased Power	5,198,366	4,686,909	4,760,353	4,721,302	4,842,906	4,627,349	5,037,032	5,267,467	4,709,637	4,507,460	4,664,482	5,369,241	58.392.504
Administration benefit benefit of the Pow Part Decision No. 070522 0.07522 0.0	4	Unit Cost of Purchased Power	0.04473307	0.04287873	0.038417873	0.040285168	0.039913027	0.039233539	0.0412780	0.042827354	0.03949662	0.038058957	0.038478	0.042274584	0.040640
Authorized Proves Authorise Proves CLOSTON (LOSTON)	S	Authorized Base Cost of Pur. Pow: Per Decision No 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
Probability of English of Signature of Market Signature of S	9 .	Authorized Purchased Power Adjuster: Per Decision No 61208 Dated 1208	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0:05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)
Total Rate Collected From Customer and Cus	6A	Supplemental PPFA per Decision No. 67676 dated 3/05	0.0000	0.0000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.0000	0.00000	0.00000	0,0000	0.0000
Internetial Difference between authorized and actual 0.025513	^	Total Rate Collected From Customer	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.0000	0.02422	0.02422	0.00400	0 00422	0,000	0,000
Part Charge of England Bank Balance SG 433 AG 738	- co	incremental Difference between authorized and actual	0.020513	0.018659	0.014198	0.016065	0.015693	0.015014	0.017058	0.018607	0.015277	0.013839	0.014256	0.018055	0.016420
Additional Bank Banners Additional Ban	a	recovery: Net chapte to Bank balance:	56 433	46 738	33 230	38 909	31.208	37 190	55 002	310 03	67 694 00	700	22.462	24.740	110
Presepporved DSM costs Actual description Bank Beance: Actual description Bank	무	Adjustments to Bank Balance	0	0	0	0	0	0	0,985	0	0.500.10	100,1	20,55	, c	19000
Control Bank Balance	Ξ	Preapproved DSM costs	0	c	0	0	D	Б	0	0	0	0	0	0	
Actual Actual Actual Actual Forecast Mov. 2 Lunid Close of Uniformal Sales (and Previous Month) 178 57 00 2.887 000 2.8	12	Ending Bank Balance:	(490,963)	(444,225)	(410,986)	(372,077)	(340,869)	(303,670)	(247,678)	(187,763)	(130.078)	(88,994)	(55,531)	(10.785)	(10 785)
Ending Bank Balance from the bring bank Balance bring bring bank Balance bring															
Ending Bank Balance from Previous Month Lin 12 Abort 12 Abort 12 Abort 12 Set 13 Abort 12			Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
Lutting Lawre taken trevious Month (1) (20) (2) (2) (2) (2) (2) (2) (2) (2) (2) (2	,		100	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	
Late State Cart Specified	- ;	Ending Bank Balance from Previous Month	_	29,670	71,048	100,934	144,969	189,004	233,039	277,074	321,109	312,390	303,671	294,952	(10,785)
National Part Age Contract Sales (Inchristed Power 12,050,050 12,060,000	5 8	Junsdictional Safes		2.864.129	2,792.413	2.667,000	2.667,000	2,667,000	2,667,000	2.667.000	2.667.000	2,667,000	2,667,000	2.667.000	32,698,902
Actival Cost of Purchased Power (1775) 654 4 552,288 4 1283,288 4 1283,018 5,200,000 5	8 8	Special Contract Sales (Industrial WWh)		114.561.194	110 278 198	127,667,000	127,567,000	127,667,000	12/ 667.000	127.667.000	127,667,300	127.667.000	127.667.000	127,667,000	1,515,479,849
UniCast of Purplemental Park Expension No. 0.07522) m	Actual Cost of Purchased Power		4 532 288	4 263 019	5 200 000	5 200 000	5 200 000	5 200 000	5 200 000	5 200 000	5 200 000	5 200,000	5 200,000	60 369 08:
Advisorment to Bank balances. Overage Care Office Car	4	Unit Cost of Purchased Power		0.038597194	0.034922566	0.040730964	0.0407309F4	0.040730964	0.040730964	0 040730954	0.040730964	0.040730964	0.040730964	0.040730964	0.038835
Authorized Purchased Purch	2	Authorized Base Cost of Pur. Pcw. Per Decision No. 52719 Dated 10/10/85		0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
Cupplemental Difference between authorized and actual Conditions 0.00000	60	Authorized Purchased Power Adjuster: Per Decision No	(0.05100)	(0.05100)	(0.05100)	(0 02100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)
Total Rate Collected From Customer 0 02422 0,02422 0,02422 0,02422 0,02422 0,02422 0,02422 0,04400 0,04100 0,04100 0,04400 0,04400 0,04100 0,0	δĄ	Supplemental PPFA per Decision No. 67676 dated 3/05	0.00000	0.00000	0.00000	0.00000	0.00000	0.0000	0.00000	0.00000	0.00000	0.0000	0.00000	0.0000	0.90900
Incremental Difference brown Unknowner of a control of a	,					!	;								
Processory (8,718,52)	~ cc	lotal Rate Collected From Customer Incremental Difference between authorized and actual	0.013376	0.02422	0.02422	0.02422 9.016511	0.0165:1	0.02422	C.62422 0.016511	0.02422	0.04400 (0.003269)	0.04.100	0.04400 (0.003269)	0.04400 (0.003269)	0.04400 (0.004165)
Nel change to Bank balance: 40,054,91 41,178.14 29,885,99 44,034.74 44,034.74 44,034.74 44,034.74 44,034.74 (8,718.52) (8		recovery.													
Presponded DSM costs 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	eo ≑	Net change to Bank balance: Adjustments to Bank Balance	40,654.91	41,178.14	29,885.99	44,034.74	44,034,74	44,034.74	44,034.74	44,034.74	(8.718.52)	(8,718.52)	(8,718.52)	(8,718.52)	297,019
Ending Bank Belance: 29 870 71,048 100,934 144,969 189,004 233,039 277,074 321,109 312,390 303,671 284,952	=======================================	Preapproved DSM costs	9 5	0 0		0	o =	•	0 0	- C	9 6	> <	> <	0	•
	12	Ending Bank Balance:	29.870	71.048	100,934	144,969	189.004	233,039	277,074	321,109	312,390	303.671	294,952	286,233	286,234

		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
	ſ	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jui-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	
-	Ending Bank Balance from Previous Month	286,233	277,514	268,795	260,076	251,357	242,638	233,919	225,200	216,481	207,762	199,043	190,324	286,233
ZA	Jurisdictional Sales	2,667,000	2.667,000	2.667.000	2.667.000	2.667,000	2 667,000	2,667,000	2,567,000	2.667,000	2,667,000	2,667,000	2,667,000	32.004.000
28	Total Sales(incl Spec Cont)	127.667.000	127.667.000	127.667.900	127.667.000	127.667.000	127.667.000	127.667.000	127.667.000	127,687,000	127,667,000	127,667,000	127,667,000	1.532 004 000
20	Special Contract Sales (Industrial kWh)	125,000,000	125,000,000	125 000 000	125 000 000	125.000.000	125 000 000	125 000 000	125 000 000	125 000 000	125 000 000	125 000 000	125 000 000	1 500 000 000
۳.	Actual Cost of Purchased Power	5,200,000	5 200 000	5 200 000	5 200 000	5 200 000	5 200 000	5 200 000	5 200 000	5 200 000	5 200 000	5 200 000	5 200 000	B2 400 000
4	Unit Cost of Purchased Power	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	2.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040731
ır,	Authorized Base Cost of Pur. Pow. Per Decision No	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
	57712 Dated 10/10/85													
9	Authorized Purchased Power Adjuster: Per Decision No 61208 Dated 12/08	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)
βA	Supplemental PPEA per Decision No. 67676 dated 3/05	0.0000	00000	00000	0 00000	0 00000	0.0000	000000	00000	00000	000000	00000	00000	000000
ś									2000	00000	20000	000000	20000	00000
7	Total Rate Collected From Customer	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400
æ	Incremental Difference between authorized and actual	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003289)
,	recovery:		1		:			:						
o n !	Net change to Bank balance:	(8,718.52)	(8,718,52)	(8.718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718,52)	(8,718.52)	(8.718.52)	(8,718.52)	(8,718.52)	(104,622)
2	Adjustments to Bank Balance	0	0	0	0	0	0	0	0	0	0	0	0	
÷	Preapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0	
12	Ending Bank Balance:	277,514	268,795	260,076	251,357	242,638	233.919	225.200	216,481	207,762	199,043	190,324	181,605	181,511
		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
		Jan-14	Feb-14	Mar-14	ADI-14	May-14	41-UD	4L-INC	Aug-14	Sep-14	Oct-14	Jan-14	Dec-14	
- ;	Ending Bank Balance from Previous Month	509,181	172,886	164,16/	155,448	146,729	138,010	129.291	120,572	111,853	103,134	94,415	85,696	181,605
\$	Cursolctional Sales	2.667.000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,667,000	2,867,000	2.667.000	32,004,000
138	lotal Sales(incl Spec Cont)	127,567,000	127,667,000	127,667,000	127,567,000	127,667,000	127,667,000	127.667,000	127,667,000	127,667,000	127,667,000	127.667.000	127.667.000	1,532,004,000
<u>ب</u>	Special Contract Sales (Industrial Kwn)	125,000,000	125.000,000	000,000,571	000,000,621	200,000,321	125,000,000	000,000,627	000,000,621	25,000,000	000,000,621	125,000,000	125,000,000	1,500,600,000
5 4	Actual Cost of Purchased Power	0,002,000	0.000,000,0	0.00,002,00	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	000,002,6	5,200,000	5,200,000	62,400,000
t w	Authorized Base Cost of Pur Pow: Per Deniston No	10505 1050.0 0 07522	0.0407.0304	0.040,0500	0.040730304	0.07522	0.040730904	0.040730804	0.0407.30804	0.0407.30904	0.07522	0.040730304	0.040730364	0.040731
,	577;2 Dated 10/10/85					10.0	100	100		100	270 075	270 075	0.01 322	0.010
9	Authorized Purchased Power Adjuster: Per Decision No 61298 Dated 12/98	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)
8 9	Supplemental PPFA per Decision No. 67676 dated 3/05	0.00000	0.00000	0.00000	0.0000	0.0000	0.00000	0.0000	0.0000	0.00000	0.0000	0.00000	0.0000	0.00060
,	Total Date of the state of the	00770	007700	007700	0	004400	007700	00770	00770	007700	00170	00000	00000	
٠.	Linear Land Condense Land Condense Land Land Land Land Land Land Land Land	0000000	0.04400	0.04400	0.04400	0.04400	00440.0	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400
0	recovery:	(n.003209)	(n.nnazoa)	(0.003209)	(0.003269)	(0.003269)	(0.003209)	(0.003209)	(0.003269)	(0.003269)	(0.003269)	(0.003259)	(0.003269)	(0.003269)
σ	Net change to Bank halance.	(8 718 52)	(A 718 52)	(R 718 52)	(R 718 52)	(8 718 52)	(8 718 52)	(8 718 52)	(8 7 18 52)	(8 718 52)	718 521	(6 718 52)	(8 719 52)	(404 622)
, 6	Adjustments to Bank Balance	0	0	0	0	0	0	0	0	0	0	0	0	1740
F	Preapproved DSM costs	0	. 6	0	0	0	0	. 0	. 0	· c	. 0		, c	
12	Ending Bank Balance:	172,886	164,167	155,448	146,729	138,010	129,291	120,572	111.853	103.134	94,415	85,696	76.977	76,983

Propared by MWE 6/27/2012

		Actual	Forecast											
		Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	
-	Ending Bank Balance from Previous Month	76,977	68,258	59,539	50,820	42,101	33,382	24,663	15,944	7,225	(1,494)	(10,213)	(18,932)	76,977
ZA	Jurisdictional Sales	2,667,000	2.667,000	2,667,000	2,667,000	2.667,000	2,667,000	2,667,000	2,667,000	2,667,000	2.667.000	2.667,000	2.667.000	32,004,000
5 B	Total Sales(incl Spec Cont)	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,667,000	127,867,000	127,667,000	127,667,000	127.667,000	127,667,000	1.532.004.000
S S	Special Contract Sales (Industrial kWh)	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	1.500.000.000
e	Actual Cost of Purchased Power	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5.200.000	5.200 000	62 400 000
٧	Unit Cost of Purchased Power	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040731
so.	Authorized Base Cost of Pur. Pow. Per Decision No 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0,07522	0.07522	0.07522	0.07522
9	Authorized Purchased Powar Adjuster: Per Decision No 61298 Dated 12/98	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)
8A	Supplemental PPFA per Decision No. 67576 dated 3/05	0.00000	0.0000	0.00000	0.00000	0.00000	0.00000	0,00000	0.00000	0.00003	0.00000	0.00000	0.0000	0.0000
7	Total Rate Collected From Customer	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400
œ	Incremental Difference between authorized and actual recovery:	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)
6	Net change to Bank balance:	(8.718.52)	(8,718.52)	(8,718,52)	(8,718.52)	(8,718,52)	(8,718,52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8 718 52)	(104 622)
6	Adjustments to Bank Balance	0	0	0	0	0	0	0	0	0	0		G	
=	Preapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0	,
12	Ending Bank Balance:	68,258	59,539	50,820	42,101	33,382	24,863	15,944	7,225	(1,494)	(10,213)	(18.932)	(27.651)	(27.645)

BEFORE THE ARIZONA CORPORATION COMMISSION 1 2 **GARY PIERCE** Chairman 3 **BOB STUMP** Commissioner 4 SANDRA D. KENNEDY Commissioner 5 PAUL NEWMAN Commissioner **BRENDA BURNS** 6 Commissioner 7 DOCKET NO. E-01049A-12-0142 IN THE MATTER OF THE APPLICATION 8 OF MORENCI WATER & ELECTRIC DECISION NO. 9 COMPANY FOR AN ADJUSTMENT IN ITS PURCHASED POWER AND FUEL **ORDER** 10 ADJUSTMENT CLAUSE RATE 11 12 13 14 Open Meeting July 18 and 19, 2012 Phoenix, Arizona 15 BY THE COMMISSION: 16 FINDINGS OF FACT 17 18 1. Morenci Water & Electric Company ("Morenci" or "Company") is certificated to 19 provide electric service as a public service corporation in various portions of Greenlee County in 20 the State of Arizona. 21 Introduction 2. On April 12, 2012, Morenci Water & Electric Company filed a request for an 22 adjustment to its Purchased Power and Fuel Adjustment Clause ("PPFAC" or "adjustor") rate from 23 24 negative \$0.051 per kWh to negative \$0.03122 per kWh to address the projected under-collected account balance. Morenci indicates that customers are paying a fuel and purchased power rate that 25 26 is below the actual cost of fuel and purchased power; therefore, Morenci's account balance will exceed the under-collected threshold of \$500,000 in the first part of 2013. Morenci projects an 27

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Background

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account balance of \$497,247 (representing its under-collection of fuel and purchase power by this amount) by the end of 2012, growing to \$1,025,664 by the end of 2013.

- 3. As of December 2011 Morenci had 2,035 residential and 244 commercial
- 4. Decision No. 54712 (October 10, 1985) set a base cost of purchased power at \$0.07522 per kWh that is embedded in base rates. A PPFAC mechanism is established to true-up revenue collections with the fluctuating costs of purchased power between rate cases. When the actual cost of purchased power exceeds (or has exceeded) the base cost of purchased power and a utility's under-recovery of costs is projected to persist into coming months, the PPFAC rate is set to a positive number. However, when actual purchased power costs are lower than the base cost of power, as in Morenci's situation, the PPFAC rate is set to a negative number. The PPFAC account balance tracks the differences between actual purchased power costs and those recovered through the combination of base rates and the PPFAC rate.
- 5. In Decision No. 68438 (February 2, 2006), the Commission approved the overcollected threshold level of \$200,000 and the under-collected threshold level of \$500,000 for Morenci. The Commission further ordered that the Company file an application to establish a new PPFAC rate either two months prior to the month the account balance was projected by the Company to reach zero, or by December 31, 2006, whichever occurred first.
- 6. In Decision No. 68813 (June 29, 2006), the Commission approved an adjustor rate of negative \$0.019 per kWh that replaced the previous adjustor rate of negative \$0.02939 per kWh.
- 7. In Decision No. 71468 (January 26, 2010), the Commission approved a temporary PPFAC rate of negative \$0.027 per kWh for a 12-month period starting February 2010 through January 2011. The Commission approved the current PPFAC rate of negative \$0.051 per kWh in Decision No. 72065 (January 6, 2011).

Decision No.

Pending Rate Case

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8. Morenci filed a rate case on July 29, 2011 in Docket No. E-01049A-11-0300. In the rate case Morenci is proposing a change to the current PPFAC mechanism to include a forward

and true-up component, i.e., the existing PPFAC will be reviewed and may be modified in this

Account Balance

pending rate case.

9. Over- or under-collections are currently tracked and accumulated in an account with a threshold of \$200,000 for over-collection and \$500,000 for under-collection. The Company's PPFAC account balance has been under-collecting since January 2011 and will exceed the under-collected threshold by January 2013. Morenci states in its application the reason that its account balance will exceed the under-collected threshold is that customers are paying a fuel and purchased power rate that is below the actual cost of fuel and purchased power. Morenci's account balance as of March 2012 is an under-collected amount of \$100,935 and, based on updated forecasts provided to Staff, Morenci estimates the under-collected amount will be \$497,247 by the end of 2012.

Morenci's Proposal

- 10. Morenci is proposing to change the PPFAC rate from negative \$0.051 per kWh to negative \$0.03122 per kWh starting on or before September 1, 2012. Based on its current estimate of power costs, Morenci believes its proposal will reduce the under-collected balance to \$181.611 by the end of 2013. Attachment 1 is a worksheet illustrating Morenci's actual demand, current PPFAC rate and the associated account balance based on actual data from January 2011 to March 2012 and forecasted demand from April 2012 through December 2015. The worksheet shows the estimated monthly bank balance from September 2012 through December 2015, assuming the proposed PPFAC rate started in September 2012.
- 11. The current and proposed PPFAC adjustor rates are both negative as Morenci's actual costs for purchased power continue to be lower than the base cost of power set in Decision No. 54712. Approximately 98 percent of the Company's electric sales are contract sales to two industrial customers, copper mines. These sales fall outside the PPFAC because the customers are

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served under a special contract. The PPFAC mechanism is relevant only to the other two percent of Morenci's sales consisting of approximately 2,035 residential and 244 commercial customers. Staff calculated the average monthly use per residential user to be 657 kWh and, based on the average usage, Staff estimates residential customers will have an average increase of \$12.99 per month. Staff agrees with Morenci's assessment that an increase from negative \$0.051 to negative \$0.03122 is necessary to prevent a rapid and expanding under-collection by the Company, and that the increase is appropriate and in the public interest.

Notice

12. Morenci has notified Staff that it has published notice of its proposed adjustor rate in the May 2, 2012 edition of the *Copper Era*, a newspaper of general circulation in Greenlee County.

Recommendations

- 13. Staff has recommended that a PPFAC rate of negative \$0.03122 be approved starting September 2012, and remain in effect until further order of the Commission.
- 14. Staff has recommended that Morenci notify its customers of the amount of the PPFAC rate and the potential bill impacts at average monthly levels of kWh use within 30 days of the effective date of the Decision in this case, and in a form acceptable to Staff.

CONCLUSIONS OF LAW

- 1. Morenci is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.
- 2. The Commission has jurisdiction over Morenci and over the subject matter of the application.
- 3. The Commission, having reviewed the application and Staffs Memorandum dated June 27, 2012, concludes that it is in the public interest to approve the Purchased Power and Fuel Adjustment rate proposed by Morenci, as discussed herein.

Decision No.

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ORDER

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2	IT IS THEREFORE ORD	DERED that a PPFAC rate of n	egative \$0.051 be implemented by
3	Morenci Water and Electric Com	pany beginning September 1, 2	2012 and remain in effect until
4	further order of the Commission.		
5	IT IS FURTHER ORDER	RED that Morenci Water and E	lectric Company notify its
6	customers of the amount of the P	PFAC rate and the potential bi	ll impacts at average monthly
7	levels of kWh use within 30 days	s of the effective date of this De	ecision, in a form acceptable to
8	Staff.		
9	IT IS FURTHER ORDER	RED that this Decision shall be	come effective immediately.
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11	BY THE ORDER OF	THE ARIZONA CORPOR	ATION COMMISSION
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13	CHAIRMAN	COM	IMISSIONER
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16	COMMISSIONER	COMMISSIONER	COMMISSIONER
17		DI WITNEGO WILEDE	OF I EDNECT C IOINGON
18		Executive Director of the	OF, I, ERNEST G. JOHNSON, Arizona Corporation Commission,
19			and and caused the official seal of ffixed at the Capitol, in the City of
20			of, 2012.
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23		ERNEST G. JOHNSON EXECUTIVE DIRECTOR	R
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25	DISSENT:		
26		S. Carlotte and Ca	
27	DISSENT:	 	
28	SMO:PML:sms/WVC		
			Decision No.

1	SERVICE LIST FOR: Morenci Water and Electric Company DOCKET NO. E-01049A-12-0142
2	
3	Mr. Jason D. Gellman Roshka, DeWulf & Patten, PLC
4	One Arizona Center COO East Van Buren Street, Suite 800
5	Phoenix, AZ 85004
6	Mr. Steven M. Olea Director, Utilities Division
7	Arizona Corporation Commission
8	1200 West Washington Street Phoenix, Arizona 85007
9	Ms. Janice M. Alward
10	Chief Counsel, Legal Division Arizona Corporation Commission
11	1200 West Washington Street
12	Phoenix, Arizona 85007
13	
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Forecast	(55.531)	2 478 350	127 008 725	124,530,356	5.369.241	0.042274584	0.07522	(0.05100)	0.00000	0.02422	0.018055	44 746	0	0	(10,785)		Forest	Dec. 12	204 062	2 687 000	127 667 000	125,000,000	5,200,000	0.040730964	(0.03122)		0.00000	0.04400	(0.003269)	07.07	18.718.32		286,233
Forecast	(88.994)	2 348 911	121,223,086	118,876,175	4.664.482	0.038478	0.07522	(0.05100)	0.00000	0.02422	0.014258	33.463	0	0	(55,531)		Toronto H	Nov-12	303 871	2 667 000	127 667 001	125 000,050	5,200,000	0.040730964	(0.03122)		0.00000	0.04400	(0.003269)	740 521	0 0	0	294,952
Forecast	(130.078)	2.968.724	118,433,618	115,464,894	4,507,460	0.038058957	0.07522	(0.05100)	0.0000	0.02422	0.013839	41.084	0	0	(88,894)		Forecast	Oct-12	312 390	2 667 000	127.667.000	125,000,000	5,200,000	0.040730964	(0.03122)		0.00000	0.04400	(0.003269)	/9 719 69/	0.01	0	303,671
Actual Sep.11	(187,763)	3,776,024	119,241,520	115,465,496	4,709,637	0.03949662	0.07522	(0.05100)	0.0000	0.02422	0.015277	57,684.88	0	0	(130,078)		Forecast	Sep-12	321 109	2,667,000	127,667,000	125,000,000	5,200,000	0.040730964	(0.03122)		0.0000	0.04400	(0.003269)	(8 713 52)	0	0	312,390
Actual Aug-11	(247,678)	3,219,982	122,993,052	119,773,070	5,267,467	0.042827354	0.07522	(0.05100)	0.0000	0.02422	0.018607	59,915	0	0	107.703		Forecast	Aug-12	277.074	2.667,000	127,667,000	125,000,000	5,200,000	0.040730964	(0.05100)	- 00000	00000	0.02422	0.016511	44 034 74	0	0	321.109
Actual Jul-11	(303,670)	3,282,435	122,026,999	118,744,564	5,037,032	0.0412780	0.07522	(0.05100)	0 00000	0.02422	0 017058	55,992	0	0 4407	10/0.7421		Forecast	Jul-12	233,039	2.667,000	127,867,000	125,000,000	5,200,000	0.040730954 0.040730954	(0.05100)	00000	0.0000	0.02422	0.016511	44 034 74	0	C	277.074
Actual Jun-11	(340,869)	2.477,686	117,943,705	115,466,019	4,627,349	0.039233539	0.07522	(0.06100)	0.00000	0.02422	0.015014	37,199	0 (0 202.7	100000		Forecast	Jun-12	189,004	2,667,000	127,667,000	125,000,000	5,200,000	0.040730964	(0.05100)	00000	0.0000	0.02422	0.016511	44.034.74	0	0	233,039
Actual May-11	(372,077)	1,988,631	121,336,474	119,347,843	4,842,906	0.039913027	0.07522	(0.05100)	0.00000	0.02422	0.015693	31,208	0	(340 869)	1000		Forecast	May-12	144,969	2,967,000	127,667,000	125,000,000	5,200,000	0.07522	(0.05100)	00000	0000	C 02422	0.016511	44,034,74	O	0	189,004
Actual Apr-11	(410,986)	2.421.963	117,197,028	114,775,065	4,721,302	0.040285168	0.07522	(0.05100)	0.0000	0.02422	0.016065	38,909	0 0	(770 675)			Forecast	Apr-12	100,934	2,667,000	127,667,000	125,000,000	5,200,000	0.040730964	(0.05100)	0.00000		0.02422	0.016511	44.034.74	0	0	144,969
Actual Mar-11	(444,225)	2,341,160	123,909,854	121,568,694	4,780,353	0.938417873	0.01.342	(0.05100)	0.00000	0.02422	0.014198	33,239	0 0	(410 986)			Actual	Mar-12	71,048	2,792,413	122,070,611	119,278,198	4,263,019	0.07522	(0.05100)	00000		0.02422	0.010703	29,885,99	0	0	100,834
Actual Feb-11	(490,963)	2,504,866	109,306,153	106,801,287	4,686,909	0.0428/8/3	0.01026	(0.05100)	0.00000	0.02422	0.018659	46,738	0 0	(444,225)			Actual	Feb-12	29,370	2.864,129	117,425,323	114,561,194	6,532,28B	0.07522	(0.05100)	0.00000		0.02422	0.014377	41,178.14	0 (0 5	850.1
Actual Jan-11	(547,396)	2,751,074	116,208,569	113,457,485	5,196,366	0.04473307	2000	(0.05100)	0.00000	0.02422	0.020513	56,433	0 0	(490,963)			Actual	Jan-12	(10,785)	3,039,360	126,971,915	123,932,555	9,77,5054	0.07522	(0.05100)	0.00000		0.02422	0.013378	40,654.91	0 0	0 60	0.65
	1 Ending Bank Balance from Previous Month		County County Color (Industrial Idea)	_				6 Authorized Purchased Power Adjuster: Per Declsion No 31298 Dated 12/98	5A Supplemental PPFA per Decision No. 67676 dated 3/05	7 Total Rate Collected From Customer	rincientelital Difference Detween authorized and actual	9 Net change to Bank balance:									de lotal dales(incl spec Cont)			Authorized Base Cost of Pur. Pow. Per Decision No 57742 Dated 11/4/10/85	Authorized Purchases Power Adjuster: Per Decision No 67208 Dated 12/08			Total Rate Collected From Customer			Adjustments to Bank Balance Presponded DSM costs		
		u č	٠.٥	• •	- 1	. 47		-	S	1- 0	-	u	-	+				•	- 2	\$ 8	9 6	š :	. 4	'n	9	64		~ 4	•	σ ,	= =	. 6	!

MORENCI WATER ELECTRIC CO. PURCHASED POWER FUEL ADUUSTER BANK BALANCE REPORT FA-1

		Forecast Jan-13	Forecast Feb-13	Forecast Mar-13	Forecast Apr-13	Forecast May-13	Forecast Jun-13	Forecast Jul-13	Forecast Aug-13	Forecast Sep-13	Forecast Oct-13	Forecast Nov-13	Forecast Dec-13	
- ≾	Ending Bank Balance from Previous Month Jurisdictional Sales	286,233 2.667,000	277,514 2,667,000	268,795 2,667,000	260,076	251,357	242,638 2,667,000	233,919	225,200	216,481	207,762	199,043	190,324	286,233
3 28	Total Sales(incl Spec Cont)	127.667.000	127.667,000	127.667.000	127,667,000	127.667.000	127,667,000	127.667.000	127,667,000	127.667,000	127,667,000	127,667,000	127.667.000	1,532,004,000
) e	Actual Cost of Purchased Power	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5.200.000	5,200,000	5.200.000	5 200 000	1,500,000,000
4	Unit Cost of Purchased Power	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040731
S	Authorized Base Cost of Pur. Pow. Per Decision No 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
9	Authorized Purchased Power Adjuster: Per Decision No 61298 Dated 12/98	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0 03122)
₽	Supplemental PPFA per Decision No. 67676 dated 3/05	0.00000	0.00000	000000	0.00000	000000	0.00000	0.00000	0.00000	0.0000	0.00000	0.00000	0.0000	0.00000
7	Total Rate Collected From Customer	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	004400	004400	00770	007700	00770
æ	Incremental Difference between authorized and actual recovery	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)
9	Net change to Bank baisnos:	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8,718.52)	(8.718 52)	(8,718,52)	(8.718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8 718 52)	(104 622)
10	Adjustments to Bank Balance	0	0	0	0	0	0	0	0	0	0	5	Ċ	
Ξ	Proapproved DSM costs	0	0	0	0	c	0	Б	0	. 0				
15	Ending Bank Baianse:	277,514	268,795	260.076	251,357	242,638	233,919	225,200	216,481	207,762	199,043	190,324	181,605	181,611
		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
	Ending Bank Balance from Previous Month	184 605	173 986	184 467	465.440	446 700	430 040	400.004	Aug-14	Sep-14	Oct-14	Jan-14	Dec-14	
۸ ۷	Judsdictional Sales	2 667 000	2 667 000	2 667 000	2 667 000	2 687 500	0.00,050	182,821	276,021	111,853	103,134	94,415	969,686	181,605
2E	Total Sales(incl Spec Cont)	127 667 000	127 667 000	127 667 000	127 667 000	127 667 000	127 867 000	127 687 000	407 687 000	2,000,000	477 667 000	2,007,000	2,567,000	32.004.000
2C	Special Contract Sales (Industrial kWh)	125,000,000	125 000 000	125 000 000	125 000 000	125 000 000	125 000 000	125,000,000	125,000,000	125,000,000	425 000 000	127,007,000	127,007,000	1,532,004,000
6	Actual Cost of Purchased Power	5,200,000	5,200,000	5.200.000	5.200.000	5 200 000	5 200 000	5 200 000	5 200 000	5 200 000	5 200 000	5 200,000	5 200 000	900,000,000
4	Unit Cost of Purchased Power	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040730964	0.040736964	0.040730964	0.040730964	0.040730964	0.222,000	0.400,000
ro.	Authorized Base Cost of Pur. Pow: Per Decision No 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
9	Authorized Purchased Power Adjuster: Per Decision No 61298 Dated 12/98	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(0.03122)	(6.03122)
6A	Supplemental PPFA per Decision No. 67675 dated 3/05	0.00000	0.0000	0.0000	0.00000	0.0000	0.00000	0.00000	0.0000	0.00000	0.00000	0.00000	0.00000	0.0000
7	Total Rate Collected From Customer	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400	0.04400
æ	Incremental Difference between authorized and actual	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003269)	(0.003259)	(0.003269)
d	Net observe to Bank helance:	(0 740 62)	10 740 601	(0.740	100 474 67	47.07	01.07				:			
, Ç	Adjustments to Bank Balance	(8,7 18,52)	19:719:321	(8.716.52)	(8,718,52)	(8.718.52)	(8,718.52)	(8,718.52)	(8.718.52)	(8.718.52)	(8.718.52)	(8,718.52)	(8,718.52)	(104.622)
Ξ	Preapproved DSM costs	0	0	0	0			0		o c	o c	> <		
7	Ending Bank Ralance:	172.886	164,167	155,448	148,729	138,010	129,291	120,572	111,853	103,134	94,415	85.696	76.97	75,983

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76,977 32,004,000 1,532,504,000 1,500,000,000 62,400,000 0,340731

Forecast
Dec-15
(18,932)
2,667,000
127,667,000
125,000,000
5,200,000
0,040730964
0,07522

Forecast Nov-15 (10,213) 2.667,000 127,667,000 125,000,000 5,200,000 0.040730964 0.07522

Cot-15 (1,494) (1,494) 2,667,000 127,667,000 125,000,000 5,200,000 0.040730964 0.07522

Sep-16 7,225 2,667,000 127,667,000 125,000,000 5,200,000 0,040730964 0,07522

Aug-15 15,944 2,657,000 127,687,000 125,000,000 5,200,000 6,200,000 0.040730964 0.07522

Forecast Jul-15 24,663 2,667,000 127,667,000 125,000,000 5,200,000 0,040730964 0,07522

Forecast Jun-15 33,382 2,667,000 127,067,000 125,000,000 5,200,000 0.040730964 0.07522

May-15 42,101 2,667,000 127,067,000 125,000,000 5,200,000 0.040730964 0.07522

Apr.15 50,820 2,667,000 127,667,000 125,000,000 5,200,000 0,040730964 0,007522

Forecast Mar-15 59,539 2,667,000 127,687,000 125,000,000 5,200,000 0,040730964 0,07522

Forecast Feb-15 68,258 2,667,000 127,667,000 125,000,000 5,200,000 6,0040730964 0,007522

Actual
Jan-15
76,877
2,667,000
125,000,000
5,200,000
5,200,000
0,040730964
0,07522

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(0.03122) 0.00000 0.04400 (8,718.52)

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(0.03122)

Ending Bank Balance from Previous Month

Luisdichoins Sales

Total Salesfind Sone Cont)

Special Contract Sales (Indigented Sales (Indigented Sales (Indigented Sales (Indigented Sales))

Actual Cost of Puchased Power

Littl Cost of Puchased Power

Authorized Base Cost of Pur Pow Per Decision No
5772 Dated 10/1085

Authorized Purchased Power Adjuster: Per Decision No
61290 Dated 12/989

Supplemental PPFA per Decision No. 67676 dated 3/05

Supplemental PPFA per Decision No. 67676 dated 3/05

0.04400 0.0000

0.00000 0.04400 (0.003269)

0.04400 (0.003269) (8,718.52)

(8,718.52)

(8.718.52) 0 0 33,382

(8.718.52) 0 0 42.101

(8,718.52) 0 0 50,820

(8.718.52) 0 0 59,539

(8.718.52) 0 0 0 68.258

Total Rate Collected From Customer Incommental Difference between authorized and actual recovery. Net change to Bank balance: Adjustments to Bank balance Presponded CSM costs Ending Bank Balance.

0.04400

(104.622)

Frepared by MWE 6/25/2012